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5 July 97



## MICHIGAN CREDIT UNION LEAGUE

July 3, 1997

Director, Card Technology Division  
Financial Management Service  
U. S. Department of the Treasury  
Room 526, Liberty Center  
401 14th Street, S.W.  
Washington, D.C. 20227

RE: Proposed New Regulation - 31 CFR Part 207 - Electronic Benefits Transfer (EBT);  
Designation of Financial Institutions as Financial Agents -- (Direct Federal EBT  
Program)

Dear Director:

The Michigan Credit Union League (MCUL) is pleased to present its comments on the Department of the Treasury's proposed new regulation dealing with disbursing government benefits through electronic funds transfer to recipients who presently do not have a financial institution account ("unbanked recipients"). The MCUL is a trade association representing 457 credit unions in Michigan.

In summary, as first stated in our letter to your Department on November 6, 1996 concerning your interim rule implementing Section 1332(e) of the Debt Collection Improvement Act of 1996, Michigan credit unions are eager to provide electronically-transferred benefit payment services. However, unfortunately the lack of specificity about some of the details of the program, especially in proposed Section 207.3--Duties of the Financial Agent, raise more issues than are resolved in reviewing the proposal for possible participation. And obviously, the threshold issue in need of resolution is whether or not credit unions will be allowed to serve federal payment recipients who are not in a credit union's field of membership (also mentioned in our November 6, 1996 letter).

Specific issues identified in connection with certain proposed sections, along with additional credit union concerns are as follows:

207.016



### **Proposed Section 207.1 -- Scope**

The MCUL proposes that the "unique character of Direct Federal EBT" be expounded on. What exactly is it about Direct Federal EBT that a new regulation needs to be adopted? An abbreviated list of the unique aspects detailed in the "Background" section of your "Notice of Proposed Rulemaking" incorporated into the final rule itself (Section 207.1 -- Scope) would be most beneficial.

### **Proposed Section 207.2 -- Definitions**

The MCUL suggests that some parts of the "disburse" definition provide more detail. Specifically, what does Treasury deem to be "maintaining" an account? What kinds of "provisions" and "terms" does Treasury contemplate by its' phrase "provision of access to such account on the terms specified by the Service."

The definition of the term "eligible financial institution" contains the same word as the term ("means as institution *eligible* for designation"). How will financial institutions be eligible for designation? Perhaps a short list of the factors that determine eligibility could be added. This list would be a handier reference than having the reader refer to eleven different provisions of the Federal law.

MCUL believes it would be beneficial to elaborate on the "state EBT program" definition. Further explanation of "needs-tested" programs versus other benefits would be beneficial as the Treasury definition/Federal Reserve Board definition distinction has implications for Regulation E disclosures. Distinguishing the various accounts to ensure Regulation E compliance could become most burdensome (as required in proposed Section 207.3(a)(2)).

### **Proposed Section 207.3 -- Duties of the Financial Agent**

The provision of proposed Section 207.3(a)(1) dictating that an account "may be closed only at the direction of the Service" could prove to be a stumbling block for credit unions. Credit unions, in effect, have no recourse should benefit recipients cause losses to the credit union. It is not reasonable to require that any financial institution be a party to an arrangement bearing such risks.

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Proposed Section 207.3(a)(4) requires the issuance of a debit card. Can credit unions charge recipients for this service? Can credit unions charge other fees relating to maintaining such accounts? While credit union fees in this and other areas are typically lower than those of other financial institutions, we believe it would be unreasonable to allow no or too little room for them to charge recipients to offset their costs.

The MCUL believes proposed Section 207.3(a)(6) ("catch-all provision"), as in the case of proposed Section 207.3(a)(1), will be a major obstacle for credit unions. What are these "duties" credit unions may need to perform in the future? What kind of resources (technology, manpower, costs) will be required? How will credit unions be compensated for these costs?

If more of the particulars of this new program are made known to credit unions, perhaps a regulation can evolve that will meet the needs of all parties. Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read 'SES', with a stylized flourish at the end.

Susan E. Smith  
Regulatory Specialist

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cc: Ms. Mary Mitchell Dunn - Credit Union National Association, Inc.